HIGHMONT MINING Corp. Ltd. (N.P.L.)

4th ANNUAL REPORT

15 MONTHS ENDED MARCH 31, 1970

HIGHMONT MINING CORP LTD. (N.P.L.)

Officers

J. L. GIBSON—President
S. J. O. McCLAY—Secretary
J. A. KYLES—Treasurer

Directors

SIR MICHAEL BUTLER, Bt., Q.C.
R. W. FALKINS
J. L. GIBSON
W. C. GIBSON
N. B. KEEVIL Jr. M.Sc., Ph.D., P.Eng.
J. A. KYLES
S. J. O. McCLAY
S. A. MOWAT

Statutory Information

CAPITALIZATION
Authorized 5,000,000 Shares

ISSUED AND FULLY PAID
3,237,005

TRANSFER AGENT
National Trust Company, Limited
510 Burrard Street
Vancouver 1, B.C.

BARRISTERS AND SOLICITORS
Andrews, Swinton, Margach, Austin & Williams
900 West Hastings Street
Vancouver 1, B.C.

REGISTERED OFFICE
Andrews, Swinton, Margach, Austin & Williams
900 West Hastings Street
Vancouver 1, B.C.

ADMINISTRATIVE OFFICE
812 - 1177 West Hastings Street
Vancouver 1, B.C.

AUDITORS
McDonald, Currie & Co.
900 West Hastings Street
Vancouver 1, B.C.

HIGHMONT MINING CORP. LTD. (N.P.L.)

Report of the Directors

On behalf of the officers and directors of Highmont Mining Corp. Ltd. (N.P.L.), it is my privilege to present to you the Fourth Annual Report.

The past year has been exciting and eventful and one of great importance to your company. The large scale development program continued with very gratifying results. The major effort was concentrated on the two main ore bodies to delineate the ore zones and determine the optimum pit design. This program has now been completed,along with the many additional programs, such as underground bulk sampling, metallurgical and grinding tests, water and power requirements, etc., all of which lead to the final feasibility study.

A feasibility report under preparation by Teck Corporation engineers is nearing completion at this time and this will be followed in the near future by an independent report by our consulting engineers. All indications are that these reports will be favourable and an early start on construction is contemplated with a production start-up of 25,000 tons per day by mid 1972. Mining will utilize conventional 100-ton truck and 13 yd. shovel combinations working in two open pits concurrently, and will supply the concentrator with nine million tons of ore per year. The concentrator will be a conventional copper and molybdenum flotation plant with the exception of a possible application of autogenous grinding techniques which could result in some capital cost savings and improved mill operating costs. The estimated capital cost for the plant is in the order of 61 million dollars.

Pilot plant test work on large bulk samples taken from the underground workings is 95% complete. Present indications are that copper and molybdenum concentrates can be marketed separately with concentrate grades of 32% Cu. and 54% Mo., and with end recoveries of 92% Cu. and 77% Mo. respectively.

Of great importance in the early years of production is the potential at Highmont for up-grading the mill feed while stock-piling lower grade material. Also, the absence of oxidized material and the fact that overburden averages only 12 feet will result in time and capital cost savings.

Computer techniques were utilized wherever possible to assist in pit designing and statistical analysis. In calculating copper equivalent percentages, a factor of 2.2 was used. All tonnages reported herein are mineable tonnages rather than the geologic tonnage referred to in previous reports. Using a cut-off grade of .20% Cu. equivalent, the total mineable reserve in the East and West pits is 150,000,000 tons, grading .285% Cu. and .051% MoS_2 for a combined .400% Cu. equivalent. The stripping ratio for the above tonnage is 1.2 - 1. In the initial years of mining 50,650,000 tons, grading .331% Cu. and .060% MoS_2, combining for .463% Cu. equivalent, are available with a waste to ore ratio of 1.1 - 1.

Current drilling in the West pit area is primarily intended for geologic control and structural data information. However, other significant areas of mineralization to the south and south-west of the two pits do exist, and have not been included in the reserves. These areas include the high grade south-west zone where the tonnage potential is somewhat limited, along with two potentially large-tonnage, average-grade areas where more drilling is indicated for proper evaluation, plus a new zone that has been trenched but not as yet drilled.

On October 1, 1969 your directors entered into an agreement with Teck Corporation Ltd. of Toronto. The essence of the agreement is as follows:

REPORT OF THE DIRECTORS (Continued)

Teck assumed all costs of further development of the Highmont property up to 2.3 million dollars. The consideration granted to Teck Corporation for money spent is as follows: 400,000 shares @ $2.50 per share and 400,000 shares @ $3.25 per share. In addition, Teck would have the first right of refusal to provide the necessary financing to bring the property into production. Of this 2.3 million dollars, 1 million has already been spent and Teck has firmly committed to provide the additional 1.3 million.

Subsequently Teck Corporation and Highmont Mining Corp. agreed on terms whereby Teck will assume responsibility for arranging to place Highmont's copper-molybdenum deposit into production. Teck will be responsible for operational management and arranging of all financing and will acquire a 45 percent interest in the property by payment of 2.5 million dollars which will be used as working capital and will not be repayable to Teck. Highmont will retain a 55 percent interest.

All capital financing will be on a debt basis, with the exception that Teck may elect to invest up to $10,000,000 in exploration and preproduction expenditures, earning up to $15,000,000 worth of 6¾% cumulative preferred shares of Highmont, redeemable by Highmont for these expenditures. Teck may convert 2/3 of these shares into common shares of Highmont at $8.00 per share.

The current outstanding capitalization of Highmont, assuming exercise of all existing share purchase contracts, is 4,095,338 shares. No further shares will be issued in arranging financing to production unless Teck exercises its right to convert its convertible preferred, in which case the outstanding capitalization would be 5,345,338 shares. In either case, this would be one of the lower capitalizations of any of the major potential or existing Western Canadian copper producers.

As I mentioned earlier, this has been an eventful year; we have been most fortunate in developing a property from its initial prospect stage several years ago to the final stage of senior financing and production plans, which will make Highmont one of the largest and most profitable copper - molybdenum mines in Canada, and the long term outlook for both copper and molybdenum is excellent.

However, one cloud of doubt and apprehension exists for Canadian mining: The Federal Government's White Paper proposals. Implementation of these proposals would eliminate Canada's reputation for providing a favourable investment climate for the exploration and development of natural resources. The finding of mines, such as Highmont, is a high risk and costly venture. In the rich Highland Valley over 150 mining companies and syndicates operated during the past 15 years, yet only 3 properties have found it possible to announce production plans despite the expenditure of many millions of dollars in exploration. If people are discouraged, through lack of incentives, from trying to find new mines and develop the country, then much of the risk capital will go elsewhere. High taxes and restrictive policies will cripple the mining business. In the case of Highmont, from the time of discovery through the exploration and development stages and into production, 66 million dollars will have been invested plus 10 years of effort. The future benefits accruing to the country's economic welfare, through jobs provided, foreign exchange and taxes, are most significant. It is extremely doubtful today that Highmont would have been found or developed under the restrictive and crippling policies proposed in the White Paper.

I wish to express my appreciation to my fellow directors, the geological and engineering staffs of Highmont and Teck Corporation and the efficient office staff for their cooperation and diligence during the past year.

Respectfully submitted,
J. L. Gibson
President

HIGHMONT MININ[G]

BALANCE SHEET a

ASSETS

	March 31, 1970	Dec. 31, 1968
	$	$
Current Assets		
Cash and short-term deposits	126,206	47,452
Accounts receivable	4,287	29,046
Prepaid expenses	413	1,877
	130,906	78,375
Investment (notes 1 and 2)	10,000	10,000
Mineral Properties (notes 1, 3 and 10)	358,195	334,661
FIXED ASSETS (note 4)	58,964	96,549
Deferred Costs		
Exploration, development and administrative (notes 1, 5 and 10)	2,396,937	1,617,053
	2,955,002	2,136,638

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Highmont Mining Corp. Ltd. (N.P.L.) as at March 31, 1970 and the statements of deferred exploration, development and administrative costs and source and use of working capital for the period from January 1, 1969 to March 31, 1970. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at March 31, 1970 and the results of its operations and the source and use of its working capital for the period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
July 23, 1970

McDONALD, CURRIE & CO.
Chartered Accountants

CORP. LTD. (N.P.L.)

at March 31, 1970

LIABILITIES

	March 31, 1970	Dec. 31, 1968
	$	$
Current Liabilities		
Accounts payable and accrued liabilities	4,918	45,224
Torwest Resources (1962) Ltd. (N.P.L.)	9,905	12,069
	14,823	57,293

SHAREHOLDERS' EQUITY

	March 31, 1970	Dec. 31, 1968
Capital Stock (notes 6 and 10)		
Authorized		
5,000,000 shares with a nominal or par value of 50c each		
Issued and fully paid		
3,237,005 shares (2,920,338 shares - 1968)	2,940,179	2,079,345
	2,955,002	2,136,638

Signed on behalf of the Board

J. L. GIBSON, Director

J. A. KYLES, Director

HIGHMONT MINING CORP. LTD. (N.P.L.)

STATEMENT OF DEFERRED EXPLORATION, DEVELOPMENT AND ADMINISTRATIVE COSTS
FOR THE FIFTEEN MONTHS ENDED MARCH 31, 1970

	Fifteen mos. ended March 31, 1970	Year ended Dec. 31, 1968
	$	$
BALANCE - BEGINNING OF PERIOD	1,617,053	861,509
EXPENDITURES DURING THE PERIOD		
Exploration and development		
Assays	77,301	35,656
Consulting geologist	44,904	35,560
Cookhouse	3,018	12,270
Depreciation	41,998	33,045
Drifting	34,092	52,065
Drilling	313,452	287,423
Equipment and vehicle operation	18,098	39,304
Equipment and vehicle rental	(161)	3,605
Feasibility and sample plant	5,397	28,686
Field supervision	20,250	22,105
General field and camp	12,054	11,758
Management fee (note 7)	65,218	64,381
Road building and maintenance	870	1,250
Salaries and wages	70,339	65,640
Stripping and trenching	168	5,459
Survey and line cutting	8,993	
Telephone and telegraph	3,131	3,398
Travelling and automobile	4,313	6,590
	723,435	708,195
Administrative		
Advertising and promotion	4,758	5,963
Accounting and audit	4,913	2,600
General office	14,921	6,832
Legal	17,923	11,262
Management fee (note 7)	19,000	12,000
Financing fee	10,000	
Management and office salaries	31,682	6,375
Shareholders' information	3,734	2,499
Travelling and automobile	3,416	4,174
Trust company fees	2,158	1,556
	112,505	53,261
Less: Recovery of administrative costs (note 5)	39,000	
Interest earned on short-term deposits	17,056	5,912
	56,056	5,912
	56,449	47,349
TOTAL EXPENDITURES DURING THE PERIOD	779,884	755,544
BALANCE - END OF PERIOD	2,396,937	1,617,053

ALLOCATION OF COSTS TO MINERAL PROPERTIES AS FOLLOWS:

Highmont Group	Kamloops Mining Division	2,393,765	1,617,053
Stellacko Group	Kamloops Mining Division	3,172	
		2,396,937	1,617,053

HIGHMONT MINING CORP. LTD. (N.P.L.)

STATEMENT OF SOURCE AND USE OF WORKING CAPITAL
FOR THE FIFTEEN MONTHS ENDED MARCH 31, 1970

	Fifteen months ended March 31, 1970	Year ended Dec. 31, 1968
	$	$
SOURCE		
Capital stock — issued for cash	847,500	615,000
— issued for mineral properties (note 3)	13,334	
Advances from Nippon Mining Co. Ltd.		90,000
Advance from Torwest Resources (1962) Ltd. (N.P.L.)		75,000
Fixed asset disposals	2,765	
	863,599	780,000
USE		
Exploration, development and administrative costs	779,884	755,544
Less: Item included in deferred exploration costs which is not a use of working capital Depreciation	41,998	33,045
	737,886	722,499
Fixed asset additions	7,178	59,105
Mineral properties (note 3)	23,534	
	768,598	781,604
INCREASE (DECREASE) IN WORKING CAPITAL	95,001	(1,604)
WORKING CAPITAL - BEGINNING OF PERIOD	21,082	22,686
WORKING CAPITAL - END OF PERIOD	116,083	21,082
REPRESENTED BY:		
Current assets	130,906	78,375
Current liabilities	14,823	57,293
WORKING CAPITAL - END OF PERIOD	116,083	21,082

HIGHMONT MINING CORP. LTD. (N.P.L.)

NOTES TO FINANCIAL STATEMENTS FOR THE FIFTEEN MONTHS ENDED MARCH 31, 1970

1. VALUES

The amounts shown for investment, mineral properties and deferred exploration, development and administrative costs represent costs to date and do not necessarily reflect present or future values.

2. INVESTMENT

The company owns 100,000 shares of Minex Development Limited (N.P.L.) at a cost of $10,000. As at March 31, 1970 85,000 of these shares were held in escrow subject to the order of the Superintendent of Brokers. Minex had a quoted value of 26c per free share on that date. No market value is available for escrowed shares.

3. MINERAL PROPERTIES

(a) Mineral claims owned or under option are all situated in British Columbia and are as follows:

Claim group	Number of claims	Mining Division	Cash $	Value ascribed to shares issued $	Total $
Highmont	34	Kamloops		334,661 (1,000,000 shares)	334,661
Stellacko (see (b) below)	9	Kamloops	10,200	13,334 (6,667 shares)	23,534
			10,200	347,995	358,195

(b) The Stellacko group of claims is being acquired under option. $30,200 cash is to be paid and 20,000 common shares of Highmont are to be issued by 1971. As at March 31, 1970, $10,200 cash had been paid and 6,667 shares had been issued at a deemed price of $2 a share.

4. FIXED ASSETS

Fixed assets and related accumulated depreciation are as follows:

	March 31, 1970			Dec. 31, 1968
	Cost $	Accumulated Depreciation $	Net $	Net $
Automotive equipment	12,575	6,302	6,273	7,755
Field equipment	98,156	64,218	33,938	62,587
Mining equipment	5,062	3,480	1,582	3,164
Camp buildings	26,148	11,791	14,357	19,583
Camp equipment	4,611	2,037	2,574	3,153
Office equipment	362	122	240	307
	146,914	87,950	58,964	96,549

Depreciation is recorded on a straight-line basis at a rate of 25% for automotive and mining equipment and 15% for camp buildings and office equipment.

5. EXPLORATION AND DEVELOPMENT AGREEMENT

Pursuant to an agreement dated October 1, 1969 Teck Corporation Limited agreed to carry out exploration and development work on the Highmont mining properties to the extent of $1,000,000 by October 6th, 1970. In consideration, Teck received the right to convert its expenditures into shares of Highmont at $2.50 per share up to a maximum of 400,000 shares. As at March 31st, 1970 Teck had expended sums totalling $536,884. The conversion right is exercisable at any time within twelve months of October 6, 1970.

If Teck expends the $1,000,000 referred to above, it may elect to incur further exploration costs on the property to the extent of $1,300,000 during the twelve months ended October 6, 1971 and will receive the right to convert its expenditures into shares of Highmont at $3.25 per share up to a maximum of 400,000 shares. The conversion right is exercisable at any time within twelve months of October 6, 1971. Teck may elect, in lieu of expending the further sum of $1,300,000, to purchase up to 400,000 shares of Highmont from its treasury at $3.25 per share.

During the term of the Teck agreement, the company covenanted to make available to Teck its management, employees and facilities at its cost not to exceed $6,500 per month. Highmont also agreed to limit its outside exploration and development activities to that agreed upon by Teck and to restrict further issuances of shares to that required under the option agreement referred to in note 3(b).

It has been proposed in a letter of intent dated June 22, 1970 that in future Teck would manage all matters relating to the exploration and development of the properties (see note 10).

6. CAPITAL STOCK

(a) At March 31, 1970 the total shares issued and the consideration received were as follows:

	March 31, 1970					Dec. 31, 1968
	Shares	Par value $	Premium $	Commission $	Net $	Net $
For cash	2,230,338	1,115,169	1,495,833	18,818	2,592,184	1,744,684
For mineral properties	1,006,667	503,334	(155,339)		347,995	334,661
	3,237,005	1,618,503	1,340,494	18,818	2,940,179	2,079,345

(b) During the fifteen months ended March 31, 1970 the company issued 310,000 shares for cash of $847,500 and 6,667 shares for mineral properties at a deemed price of $2 per share for $13,334 (see note 3(a)).

(c) In order to fully exercise the option referred to in note 3(b), the company must issue a further 13,333 shares.

(d) The company is committed to issue 400,000 shares at $2.50 per share and a further 400,000 shares at $3.25 per share if certain conditions are fulfilled by Teck Corporation Limited in conformance with the exploration and development agreement referred to in note 5.

(e) The company has granted separate share options to a director and the mine manager to acquire 25,000 shares and 20,000 shares at $3.30 and $2.50 respectively, exercisable in five equal annual instalments commencing in 1970.

NOTES TO FINANCIAL STATEMENTS FOR THE FIFTEEN MONTHS ENDED MARCH 31, 1970

7. MANAGEMENT FEES

The management contract with Torwest Resources (1962) Ltd. (N.P.L.) at $1,000 a month plus ten percent of all exploration costs was terminated on September 30, 1969.

Pursuant to an agreement dated February 10, 1969 which was terminated on April 30, 1969, the company paid Thermochem Industries Limited a management fee of $10,000.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the fifteen months ended March 31, 1970 the directors and senior officers of the company, as defined by the British Columbia Securities Act, 1967, were paid aggregate remuneration totalling $46,707. Included in this amount are directors' fees of $3,000.

9. CONTINGENT LIABILITY

At March 31, 1970 the company was the defendant in an action claiming $11,208. The company has denied the claim in total and is defending the action.

10. SUBSEQUENT EVENTS

Pursuant to a letter of intent dated June 22, 1970 and subject to the approval of the Highmont shareholders and the appropriate securities regulatory bodies:

(i) Highmont agreed to sell Teck Corporation Limited an undivided 45% interest in its Highland Valley mining properties for $2,500,000, payment to be evidenced by an interest-free mortgage registered on the mining properties which is due and payable on the earlier of the date of commencement of production from the properties or December 31, 1974.

(ii) In addition to the expenditures of $1,000,000 and $1,300,000 referred to in note 5, Teck has the right to advance up to a further $10,000,000 of financing for which Teck would receive up to 1,875,000 cumulative, redeemable 6 ¾% preferred shares having a par value of $8 per share of which no more than 1,250,000 shares may be converted, at the option of Teck, to common shares at a price of $8 per common share exercisable for a period of five years subsequent to the date of commencement of production. Teck will have the exclusive right to arrange financing to production which must be arranged on or before December 31, 1971. All financing, with the exception of the $10,000,000 referred to above, will be on a secured debt basis repayable out of 100% of the net proceeds from production. Highmont will make available all necessary working capital required for the mining and milling operations on the properties after commencement of production up to a maximum of $2,500,000. Teck will manage all matters relating to the exploration, development of the properties including the mining and milling operations.

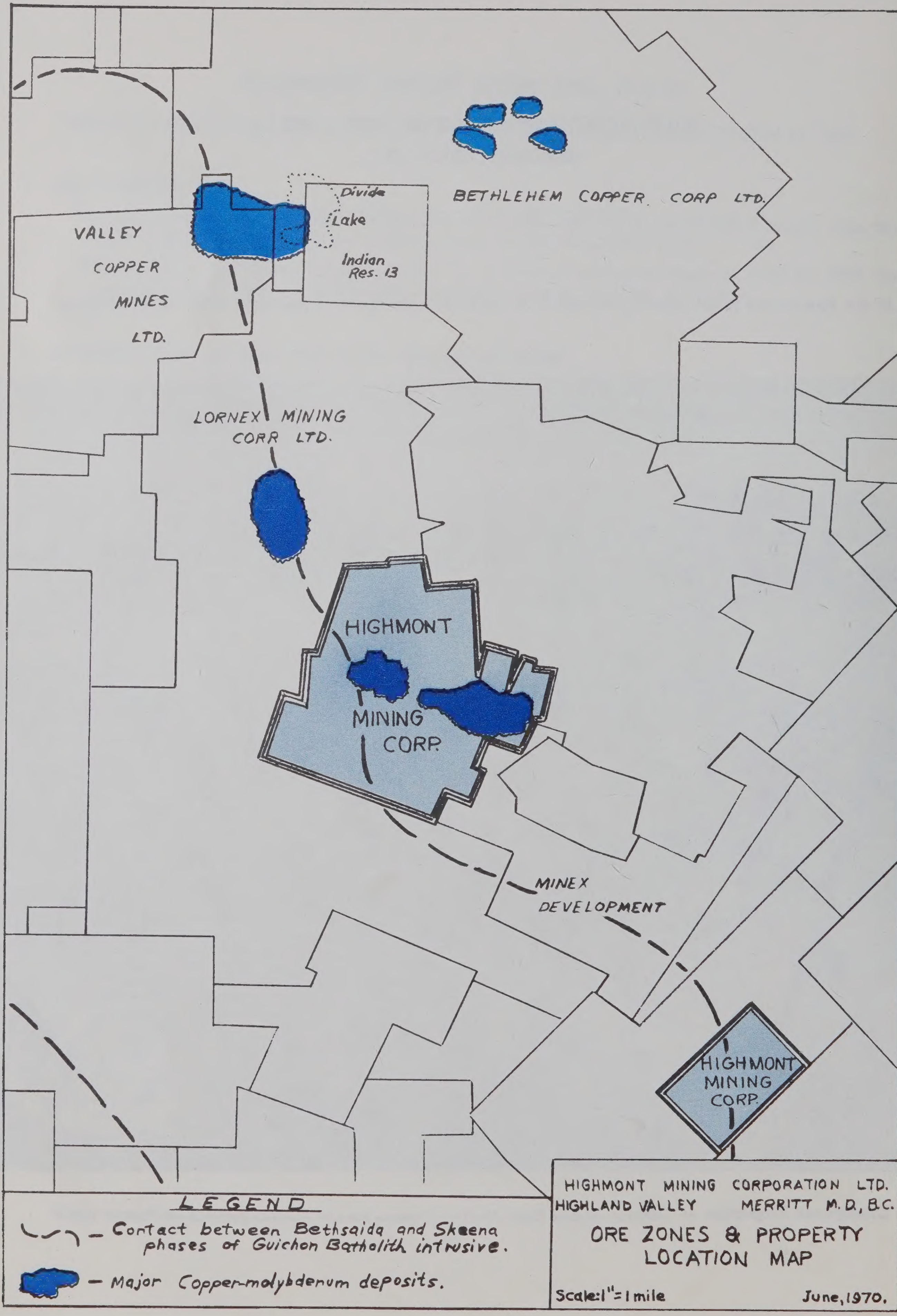
Teck will also have the first refusal on financing of any other projects initiated by Highmont for a period of twenty years.

HIGHMONT MINING CORP. LTD. (N.P.L.)

HIGHLAND VALLEY, B.C.

In the foreground is an artist's conception of the Highmont open-pit operation when in production.

Contiguous Properties — Lornex (upper left); Valley Copper (upper centre); Bethlehem (upper right)


BETHLEHEM COPPER CORP LTD.
Divide
Lake
Indian Res. 13
VALLEY COPPER MINES LTD.
LORNEX MINING CORP LTD.
HIGHMONT MINING CORP.
MINEX DEVELOPMENT
HIGHMONT MINING CORP.
LEGEND
— Contact between Bethsaida and Skeena phases of Guichon Batholith intrusive.
— Major Copper-molybdenum deposits.
HIGHMONT MINING CORPORATION LTD.
HIGHLAND VALLEY MERRITT M.D., B.C.
ORE ZONES & PROPERTY LOCATION MAP
Scale: 1" = 1 mile
June, 1970.

BRITISH COLUMBIA
MAJOR MINING PROPERTIES ◈
CITIES & TOWNS ●

GAR
PRINTED IN CANADA